

## 7.1 Decide to Purchase, Join, or Start a Business

### True or False

**Directions** Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

- |   | <b>Answers</b> |
|---|----------------|
| 1. The owner of a business may sell the business because of insufficient sales or profits.  | 1. _____       |
| 2. A business broker is a person who sells businesses for a living.   | 2. _____       |
| 3. A disadvantage of buying an existing business is that it may be poorly located.  | 3. _____       |
| 4. When purchasing an existing business, you should find out why the business is being sold, inspect the facility, and analyze the financial accounts for the last three years. | 4. _____       |
| 5. A valuator can help determine a price to offer for a business and can write a sales contract.  | 5. _____       |
| 6. A franchisee is a person who purchases a franchise agreement.  | 6. _____       |
| 7. The initial franchise fee may be \$100,000 and is usually refundable.  | 7. _____       |
| 8. The owner of a franchise must pay a weekly or monthly royalty fee to the seller of the franchise.  | 8. _____       |
| 9. A disadvantage of owning a franchise is that equipment and supplies can be more expensive because you must buy them from the franchisor.                                     | 9. _____       |
| 10. Although recommended, it is not necessary to consult an attorney before purchasing a franchise.   | 10. _____      |

### Multiple Choice

**Directions** In the Answers column, write the letter that represents the word, or group of words, that correctly completes the statement.

- |   | <b>Answers</b> |
|---|----------------|
| 1. You can find businesses for sale through (a) classified ads, (b) leasing agents, (c) bankers, (d) all of these.  | 1. _____       |
| 2. An advantage of buying an existing business is that (a) there will not be any customer goodwill, (b) suppliers are lined up, (c) it is making a profit, (d) less capital is required.  | 2. _____       |
| 3. When buying an existing business, you should analyze financial accounting reports of operations for at least (a) one year, (b) two years, (c) three years, (d) none of these.  | 3. _____       |
| 4. When buying a business, you should do all of the following <i>except</i> (a) meet with the seller, (b) inspect the business during working hours, (c) inspect a list of all customers, (d) have a lawyer draw up the sales contract.   | 4. _____       |
| 5. The amount paid for the right to run a franchise is (a) an initial franchise fee, (b) a startup cost, (c) a royalty fee, (d) an advertising fee.   | 5. _____       |
| 6. You should be suspicious when buying a franchise if the franchisor refuses to provide (a) written financial statements, (b) free advertising, (c) training or classes, (d) oral promises.  | 6. _____       |
| 7. Franchisors may offer (a) to help finance the purchase, (b) to waive the royalty fees, (c) free nationwide advertising, (d) management and technical training.   | 7. _____       |
| 8. Which of the following is <i>not</i> a disadvantage of owning a franchise? (a) Franchises can cost a lot of money, (b) Franchise owners must charge set prices, (c) Franchise owners can benefit from the successes of other franchises, (d) The franchise owner may not have the franchise agreement renewed. | 8. _____       |

## Problem Solving

**Directions** The following table describes various laws that entrepreneurs should know and understand. Complete the table by identifying each law by name.

Description of Law	Name of Law
States that names, symbols, or special marks that distinguish certain businesses can be used only by the business.	
Sets safety standards for products other than food and drugs.	
States that it is illegal for a business to require a customer to purchase one good in order to be able to purchase another good.	
Regulations that control what types of buildings can be built in what areas.	
Helps consumers correct credit card billing errors.	
Makes it illegal for competitors to get together and set prices on the products or services they sell.	
Gives an inventor the sole right to produce, use, and sell an invention.	
Bans the sale of impure, improperly labeled, falsely guaranteed, and unhealthful foods, drugs, and cosmetics.	
Bans unfair or deceptive actions or practices by businesses.	
Establishes rights to exclusive publication, production, sale, or distribution of a literary or artistic work.	
Makes it illegal to charge different prices to different groups of nonretail customers.	

## 7.2 Choose a Legal Form of Business

### True or False

**Directions** Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

- |   | <b>Answers</b> |
|---|----------------|
| 1. There are two main types of ownership arrangement.   | 1. _____       |
| 2. The government exercises very little control over sole proprietorships.  | 2. _____       |
| 3. You must file a written description of your business with the government when you raise money for a sole proprietorship. | 3. _____       |
| 4. In a partnership, any losses will be shared by all the partners.   | 4. _____       |
| 5. A partnership agreement must be written by a lawyer and filed with your local government.                                | 5. _____       |
| 6. A partnership agreement identifies the investment contributed by each partner.   | 6. _____       |
| 7. People who own shares of stock in a corporation are the owners of the corporation.                                       | 7. _____       |
| 8. A corporation's senior officers decide how much should be paid out in dividends.   | 8. _____       |
| 9. A corporation pays taxes both on its income and on the amount it pays out in dividends.                                  | 9. _____       |
| 10. An S corporation's profits are taxed only as individual income, not as corporate income.                                | 10. _____      |

### Multiple Choice

**Directions** In the Answers column, write the letter that represents the word, or group of words, that correctly completes the statement.

- |  | <b>Answers</b> |
|--|----------------|
| 1. A business with the legal rights of a person and which may be owned by many people is a (a) sole proprietorship, (b) partnership, (c) corporation, (d) dual partnership.  | 1. _____       |
| 2. A business is a sole proprietorship if (a) it is owned exclusively by one person, (b) it has fewer than ten employees, (c) it has the legal rights of a person, (d) all of these.   | 2. _____       |
| 3. A disadvantage of a sole proprietorship is that (a) it must remain small, (b) it is difficult to start, (c) government regulation is extensive, (d) only the owner contributes money.   | 3. _____       |
| 4. An advantage of a partnership is that (a) government regulations prevent disagreements, (b) decision making and responsibilities are shared, (c) it is easy to raise capital, (d) it has the legal rights of a person.  | 4. _____       |
| 5. Which of the following is <i>not</i> included in a partnership agreement? (a) Names of the partners, (b) Conditions under which the partnership can be dissolved, (c) How dividends are to be distributed, (d) Procedure for dealing with the death of a partner. | 5. _____       |
| 6. In a corporation, each share of stock is (a) sold by a director of the company, (b) used to determine the amount of income tax, (c) a unit of ownership in the company, (d) a liability.  | 6. _____       |
| 7. The board of directors of a corporation (a) sets up the company's accounting procedures, (b) determines the salaries of the senior officers, (c) pays dividends to shareholders, (d) may be held liable for all company debts.                                    | 7. _____       |
| 8. The individual or group that owns the most shares of stock in a corporation (a) is liable for all corporate debts, (b) is called the board of shareholders, (c) receives all the profits, (d) maintains control of the company.                                   | 8. _____       |
| 9. A limited liability company (a) cannot be formed by a single owner, (b) is not subject to the rules for an S corporation, (c) provides more tax benefits than an S corporation, (d) all of these.   | 9. _____       |
| 10. The most common legal form of business in the United States is (a) sole proprietorship, (b) S corporation, (c) partnership, (d) limited liability company.   | 10. _____      |

## Problem Solving

**Directions** Answer the following questions in the space provided.

1. What are the advantages and disadvantages of a sole proprietorship?

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2. What are the advantages and disadvantages of a partnership?

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3. What are the advantages and disadvantages of a corporation?

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4. Suppose a company has debts of \$120,000 when it goes out of business. Determine the liability in each of the following situations:

- a. The company is a sole proprietorship.

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- b. The company is a partnership with three partners. The partners have agreed to share profits and losses equally.

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- c. The company is a corporation with 100 shares of stock worth \$1,000 each. There are five shareholders; one owns 60 shares of stock and each of the other four owns 10 shares.

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## 7.3 Legal Issues and Business Ownership

### True or False

**Directions** Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

- |   | <b>Answers</b> |
|---|----------------|
| 1. The Clayton Act makes it illegal for competitors to get together and set prices on the products or services they sell.                               | 1. _____       |
| 2. The Wheeler-Lea Act bans unfair or deceptive actions or practices by businesses.   | 2. _____       |
| 3. The Antitrust Division of the FTC takes legal action against any business it believes has tried to monopolize an industry.                           | 3. _____       |
| 4. During the period a patent is in effect, no business or individual can copy or use the patented invention without permission from the patent holder. | 4. _____       |
| 5. Copyrights remain in effect for 20 years after the death of the author.  | 5. _____       |
| 6. Regulations that protect consumers include trademarks, zoning regulations, and consumer protection laws.   | 6. _____       |
| 7. The original, creative work of an artist or inventor is called intellectual property.  | 7. _____       |
| 8. The Consumer Product Safety Act of 1972 sets safety standards for products other than food and drugs.  | 8. _____       |
| 9. One of the most common reasons that a business hires a lawyer is to assist with contracts.   | 9. _____       |
| 10. Consideration occurs when one party in a contract offers or agrees to do something and the other party accepts.                                     | 10. _____      |

### Multiple Choice

**Directions** In the Answers column, write the letter that represents the word, or group of words, that correctly completes the statement.

- |   | <b>Answers</b> |
|---|----------------|
| 1. The antitrust legislation that makes it illegal for competitors to set prices is the (a) Sherman Act, (b) Clayton Act, (c) Robinson-Patman Act, (d) Wheeler-Lea Act.                               | 1. _____       |
| 2. This law makes it illegal to charge different prices to different groups of nonretail consumers. (a) Sherman Act, (b) Clayton Act, (c) Robinson-Patman Act, (d) Wheeler-Lea Act.                   | 2. _____       |
| 3. The law that bans false or misleading advertising is the (a) Sherman Act, (b) Clayton Act, (c) Robinson-Patman Act, (d) Wheeler-Lea Act.   | 3. _____       |
| 4. Laws that protect businesses involve (a) licenses, (b) zoning, (c) trademarks, (d) the Justice Department.   | 4. _____       |
| 5. Restrictions on where businesses can locate are (a) licensing laws, (b) zoning laws, (c) consumer protection laws, (d) enforced by the FDA.  | 5. _____       |
| 6. This law requires all banks to calculate credit costs in the same way. (a) Sherman Act, (b) Clayton Act, (c) Truth-in-Lending Act, (d) Fair Credit Billing Act.                                    | 6. _____       |
| 7. The FTC monitors all of the following activities <i>except</i> (a) false or misleading advertising, (b) price setting by competitors, (c) price discrimination, (d) the sale of unhealthful foods. | 7. _____       |
| 8. This means the parties to a contract are legally able to enter into a binding agreement. (a) Consideration, (b) Legality, (c) Capacity, (d) Agreement.   | 8. _____       |
| 9. You can learn about laws that affect your business (a) by reading books, (b) by taking a course in business law, (c) from the Internet, (d) all of these.  | 9. _____       |
| 10. You may want to pay a lawyer to (a) help you hire employees with disabilities, (b) give you advice on insurance coverage, (c) discuss your prices with competitors, (d) none of these.            | 10. _____      |

## Problem Solving

**Directions** Answer the following questions in the space provided.

1. Choose one advantage of buying an existing business and explain why it is an advantage.

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2. Choose one disadvantage of buying an existing business and explain why it is a disadvantage.

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3. What should you consider in addition to money when purchasing a franchise?

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4. Which costs of purchasing a franchise would you still have if you start your own business?

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5. Which costs of purchasing a franchise would *not* be incurred if you start your own business?

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6. The franchise costs in Question 5 pay for benefits that reduce the risk of uncertainty in starting your own business. Explain why.

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